

Engineering solid new foundations for robust corporate growth in a changing world

The Year in Review

In fiscal 2003, the period from April 1, 2002 through March 31, 2003, the Japanese economy demonstrated signs of recovery in certain respects, as illustrated by expansion in exports from the start of the term. Unfortunately, the situation turned severe during the second half of the term as deflationary concerns exacerbated and share prices proceeded relentlessly downward amid anxiety toward the future prospects of the global economy.

Against this backdrop The Kansai Electric Power Co., Inc. (Kansai EP) recorded a 1.5% increase in total electricity sales year-on-year; sales volume reached 141.8 billion kWh, with expansion attributable to increased heating demand in response to a colder-than-average winter and recovery in select customer segments. This increase in electricity volume notwithstanding, operating revenues declined by ¥3.64 billion to ¥2,615.1 billion under the impact of our rate reductions implemented in October 2002 to boost the Company's competitive position. Operating expenses totaled ¥2,289.5 billion, down ¥42.7 billion from the level of fiscal 2002. On the one hand fossil-fuel costs decreased as nuclear plants performed smoothly and enabled the load factor to rise to an unprecedented 90.5%. Also, initiatives were taken to enhance efficiency throughout all aspects of management, and measures were implemented to trim maintenance and capital costs. On the other hand a variety of new cost-incurring steps were taken ahead of schedule to prevent future burdens; these included preferential measures in tandem with our early retirement initiative and disposal of pension-related costs. Additionally, to cope with thermal plants whose operations had been suspended at length, we effected extraordinary amortizations so as to fortify our competitive position going forward. In the end the Company completed fiscal 2003 with ¥325.5 billion in operating income, up ¥6.2 billion from the year-earlier level.

Consolidated net income reached ¥80.4 billion, down ¥47.9 billion from the year-earlier level. The positive impact of the booking of ¥28.2 billion in extraordinary profit from the sale of part of the Company's share holdings was heavily offset by a special loss of ¥62.0 billion linked to the cancellation of the construction of the Kaneihara power facility.

At term's end our shareholders' equity ratio was down 0.2 percentage point from the level of fiscal 2002. However, interest-bearing liabilities were reduced by ¥94.2 billion.

A trend in recent years, and one which had a clear impact on our earnings results in fiscal 2003, is a progressively heavier burden of personnel costs; the trend is ascribable to increasing retirement payments, notably in conjunction with pension expenditures. Although this circumstance can be blamed on the current investment environment, a radical resolution to the problem is imperative.

Kansai EP is boldly transforming itself into a diversified and dynamic entity flexibly prepared to respond to shifting parameters.



Yoshihisa Akiyama
Chairman of the Board of Directors

Yohsaku Fuji
President and Director

Another problem is the level of our operating income. In fiscal 2003 we managed to record a year-on-year increase in operating income as described above; but in comparison to the levels of earlier years, income remains sluggish. The lethargy can be ascribed to the Kansai region's slumping economy and to competition against other energies in this home area, and in order to increase our income level going forward, at Kansai EP we are determined to pursue an effective price strategy as well as implement a host of business initiatives not price-related.

Focused Response to a Ripe Opportunity

The environment surrounding the electricity business is currently undergoing significant transformations as the blueprint for deregulating the industry becomes increasingly clear. In the coming years liberalization will be expanded in progressive increments and the industry will undergo a cornucopia of major system changes, including the establishment of a wholesale electric power market and elimination of the wheeling charges currently levied whenever power crosses into the grid of another provider. In addition, competition is projected to become increasingly fierce in the coming years. Today, movements to enter the electricity market are gathering momentum as competing firms carry forward plans to operate power plants of major scale.

At Kansai EP, while we are keenly cognizant of the risk of becoming embroiled in severe competition amid this rapidly changing business environment, more importantly we look on these shifting parameters as a dynamic opportunity for us to raise our corporate and shareholder value through earnings expansion. To capitalize fully on this opportunity — an opportunity not afforded to us when the industry was totally regulated — we have set three overriding targets on which to focus our managerial resources: 1) reinforcement of our competitive strength, 2) enhancement of our Groupwide earning power, and 3) strengthening of our financial structure. Here is how we aim to achieve this triad of objectives.

First, to boost our competitive strength, we are taking determined initiatives to fortify our price competitiveness while closely monitoring developments in market liberalization, and to enhance customer satisfaction through provision of new forms of value. Toward these ends we will pursue optimal efficiency in all areas of management and devote our resources to the development of ever better electrical equipment, service menus and rate options. We will also pool our comprehensive Group resources in a quest for enhanced capabilities as a provider of a full slate of energy solutions. Finally, we will strive to achieve ever more effective programs to cultivate and train the professional staff we will require to furnish this kaleidoscopically changing palette of solutions to our customers.

Second, with the aim of strengthening our Groupwide earning capacity, we will pursue enhanced manage-


ment efficiency, including radical reorganization of our Group companies, and strive for ever more effective use of our Groupwide managerial resources. We also will explore new business avenues through selective concentration into operations that will offer us the ability to effectively apply our Groupwide resources along three vectors in particular: comprehensive energy solutions, amenities in support of lifecycle requirements, and information technology services. Steady progress continues to be achieved in each of these directions. For example, we have instituted retail gas sales by applying our expertise in the operation of facilities handling LNG; we have inaugurated services in home security, capitalizing on the trust placed in us by the regional community; and we have launched Internet services making use of our 65,000-kilometer fiber-optic network. In the years ahead we will continue to aggressively pursue investments into new business areas that will lead to ongoing expansion of our earnings base into the future.

Third, in conjunction with the fortification of our financial structure, tangible achievements are now coming to the fore. In March 2003 we revised upward nearly all of the financial targets that we had set one year earlier, despite the deepening severity of our operating environment projected ahead. We now aim for a consolidated free cash flow averaging more than ¥360 billion per annum between fiscal 2004 and fiscal 2006, a shareholders' equity ratio above 25% by the end of fiscal 2006, and a reduction in our interest-bearing debt to ¥3.4 trillion by the end of fiscal 2006.

Meeting New Challenges for Tomorrow's Growth

Going forward Kansai EP will continue to fulfill its social responsibilities as a corporate global citizen, including our indelible commitment to resolve environmental issues. Synchronously we will also seek profit growth and expanded shareholder value in a sustained manner, in three ways: by instilling loyal trust among our customers on a Groupwide basis; by driving the continuing development of the Kansai region as a growth enterprise; and by achieving and sustaining the resiliency and strength to respond to any and all changes in our operating environment.

That operating environment is presently on the threshold of even greater transformations ahead. To weather the challenges of these changing times, we renew our pledge to pursue innovations on broad fronts and to seek dramatic new heights for tomorrow. We sincerely ask for your continuing support as we proceed toward these demanding goals.


Yoshihisa Akiyama
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